

SUPPORTING THE AMERICAN CHAMBER OF COMMERCE IN SERBIA  
IN PREPARING A PROPOSAL TO IMPROVE THE REGULATION OF  
ENVIRONMENTAL CHARGES AND MONITORING OF THE USE OF FUNDS  
AT LOCAL LEVEL



2<sup>nd</sup> Report:

Analysis of revenues from environmental charges and expenditures on environmental protection at local level, with proposals for the improvement of their efficiency, transparency, and the local capacity

June 2021

In accordance with the ToR, we are here submitting our Report “The analysis of revenues from environmental charges and expenditures on environmental protection at local level, with proposals for improvement of their transparency, efficiency, and local capacity”, prepared within the Project “Supporting the American Chamber of Commerce in Serbia in preparing a proposal to improve the regulation of environmental charges and monitoring of the use of funds at local level”. The purpose of this Report is to inform the addressees and the beneficiaries of this Project, and the Report or its part should not be cited or referred to without our previous consent, unless it is specifically so provided in our contract for the provision of services. We do not accept any liability toward any third party which may be presented this Report or which may obtain a copy of the Report.

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## Abbreviations

|       |   |
|-------|---|
| EP    | Environmental protection  |
| LoC   | Law on Charges for Usage of Public Goods, <i>Official Gazette of RS</i> , Nos 95/2018 and 49/2019.  |
| PA    | Protected area  |
| LSGU  | Local self-government unit  |
| MEP   | Ministry responsible for environmental protection   |
| CEP   | Charges for environmental pollution: charges for emissions of SO <sub>2</sub> , NO <sub>2</sub> , particulate matter (PM), and waste production or disposal, charges for ozone-depleting substances (ODS), and charge for polyethylene bags |
| CEPI  | Charge for environmental protection and improvement   |
| CUMRR | Charge for usage of mineral resources and reserves  |

## 1. Introduction

This Report has been prepared for the American Chamber of Commerce in Serbia to support the analysis and preparation of a proposal for the improvement of transparency, efficiency, and local capacity in management of revenues from environmental charges and expenditures on environmental protection.

The analysis whose findings are included in this Report had two main goals.

First goal was to check the availability and quality of the data about revenues and expenditures related to environmental protection (EP) at the level of local self-government units (LSGUs), and at the level of protected area management bodies.

The second goal was to, at the example of ten LSGUs and the management bodies of ten protected areas (PAs) draw conclusions about the relevant significance and structure of revenues from environmental and mining charges which, either entirely or in part, belong to the budget of the LSGU, and/or the PA management body.

The first part of the Report presents the findings of the analysis of revenues from environmental and mining charges which either entirely or in part belong to the budget of the local self-government unit (LSGU), and the findings of the analysis of relative significance and structure of expenditures on environmental protection at the example of ten LSGUs.

The second part of the Report includes an overview of answers to the Questionnaire submitted by the management bodies of ten protected areas (PAs) relating to the level and structure of revenues from charges for the usage of PAs and their relative significance in financing the expenditure on PA protection.

The last Chapter of the Report covers recommendations for increasing the efficiency of the entire system, improving the transparency and consistency of the records of revenues from environmental charges and expenditures on environmental protection, and necessary strengthening of relevant capacity of local self-government units.

## 2. Environmental charges and expenditures on environmental protection

### 2.1. Scope and sources of data

Within the environmental charges defined by the Law on Charges for the Usage of Public Goods<sup>1</sup> (LoC), the analysis of revenues covers charges for environmental pollution and charges for environmental protection and improvement as the only charges whose revenues either entirely or in part belong to the budget of the LSGU (hereinafter: environmental charges).

Charge for environmental pollution (CEP) include charge for the emissions of SO<sub>2</sub>, NO<sub>2</sub>, particulate matter, and waste production or disposal, charge for ozone-depleting substances and for plastic bags other than biodegradable ones. The LSGU budgets receive 40% of the revenues from CEP.

Charge for environmental protection and improvement (CEPI) basically consists of two different charges: one is payable for carrying out some specific activities which affect the environment, and the other is payable for the transport of dangerous matter from industry. A feature shared by these charges is that collected revenues entirely belong to the LSGU in whose territory these activities are carried out, or dangerous matter is taken over for transport.

Moreover, the analysis covered revenues from charge for the usage of mineral resources and reserves (CUMRR or mining charges). CUMRR is charged for the exploitation of nine categories of minerals as defined by LoC. Considering that the exploitation of minerals always has the greatest negative effect on the environment in immediate vicinity of the exploitation field, 40% of revenues from CUMRR belongs to the budget of the LSGU in whose territory the exploitation takes place. In other words, the level of the LSGU revenues from this charge is indicative of the scope of this type of impact on the environment, on one hand, and the need for higher investments in environmental protection, on the other hand.

The source of data for data analysis is the Ministry of Finance, Treasury Administration.

Expenditures on EP were analysed based on the data covering annual accounts of the budgets of selected LSGUs. According to the functionality of revenue classification<sup>2</sup>, expenditures on EP are classified in the following six groups:

- 51 – Waste management;
- 52 – Wastewaters management;
- 53 – Pollution reduction;
- 54 – Protection of flora and fauna and landscape;
- 55 – Environmental protection – research and development;
- 56 – Environmental protection not classified elsewhere.<sup>3</sup>

The analysis covered ten LSGUs, specifically: Apatin, Belgrade, Bor, Vrbas, Kikinda, Kruševac, Niš, Novi Sad, Pančevo, and Surdulica.

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<sup>1</sup> *Official Gazette of RS*, Nos 95/2018 and 49/2019.

<sup>2</sup> Rulebook on standard classification and chart of accounts for the budget system, *Official Gazette of RS*, Nos 16/2016, ..., 19/2021.

<sup>3</sup> Enclosed to this Report is the coverage of each of these categories.

Since annual accounts of the LSGU budgets for 2020 were not available at the time this Report was prepared<sup>4</sup>, the analysis of expenditure was possible only based on the data for 2019. That is also why the revenues were, for the sake of comparability, analysed for 2019 only. Besides, because of the implications of Covid-19 pandemic, 2020 was not a typical year –from the perspective of revenues or that of expenditures.

## 2.2. Revenues from environmental and mining charges and expenditures on environmental protection

Besides differences in budget policy, their size, position, and the level of economic development have a significant impact on the differences in the level and structure of revenues and expenditures in the selected LSGUs shown in Table 1. Therefore, the analysis shown further in the text is based on relative indicators which are mutually comparable.

**Table 1 Revenues and expenditures in selected LSGUs in 2019, in RSD Mil.**

| LSGU      | Revenues |   |           | Expenditures |           |
|-----------|----------|---|-----------|--------------|-----------|
|           | CEPI     | Environmental and mining charges, Total | Total     | EP           | Total     |
| Apatin    | 23.3     | 23.5                                    | 1,204.5   | 19.0         | 1,199.9   |
| Belgrade  | 270.0    | 2,025.0                                 | 119,944.0 | 1,352.6      | 108,987.6 |
| Bor       | 151.3    | 520.6                                   | 2,120.2   | 242.6        | 2,348.6   |
| Vrbas     | 14.6     | 18.8                                    | 1,405.6   | 77.6         | 1,537.6   |
| Kikinda   | 23.5     | 331.7                                   | 2,561.9   | 191.5        | 2,611.4   |
| Kruševac  | 9.3      | 9.7                                     | 3,437.8   | 101.2        | 3,312.6   |
| Niš       | 38.8     | 42.0                                    | 9,320.2   | 178.3        | 8,659.2   |
| Novi Sad  | 113.3    | 121.1                                   | 23,634.4  | 1,972.5      | 25,008.2  |
| Pančevo   | 321.0    | 345.8                                   | 5,207.5   | 568.9        | 5,280.1   |
| Surdulica | 10.0     | 12.3                                    | 751.3     | 70.4         | 904.1     |
| Ukupno    | 975.1    | 3,450.6                                 | 169,587.5 | 4,774.6      | 159,849.3 |

**Source:** for revenues – Ministry of Finance, Treasury Administration; for expenditures – annual accounts of the budgets of selected LSGUs, for 2019

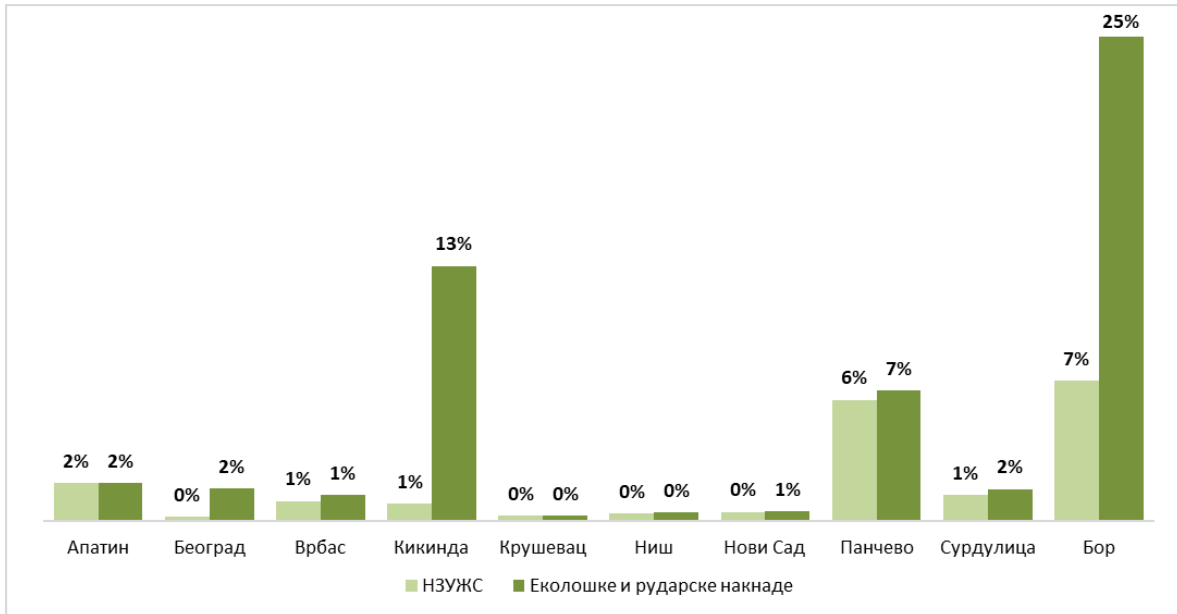
The two figures below show relative significance of selected environmental and mining charges in the total revenues of selected LSGUs, and relative significance of revenues from individual charges in the total revenues from environmental and mining charges.

Environmental and mining charges have the best relative revenue significance in Bor (as much as 25% of total revenues), Kikinda (13%), and Pančevo (7%). In Apatin, Belgrade, and Surdulica, the revenues from these charges account for 2% of total revenues, and in the remaining LSGUs they are about 1% or less than that.

<sup>4</sup> Deadline for adoption and publication of 2020 annual accounts of LSGU budgets is 30 June 2021

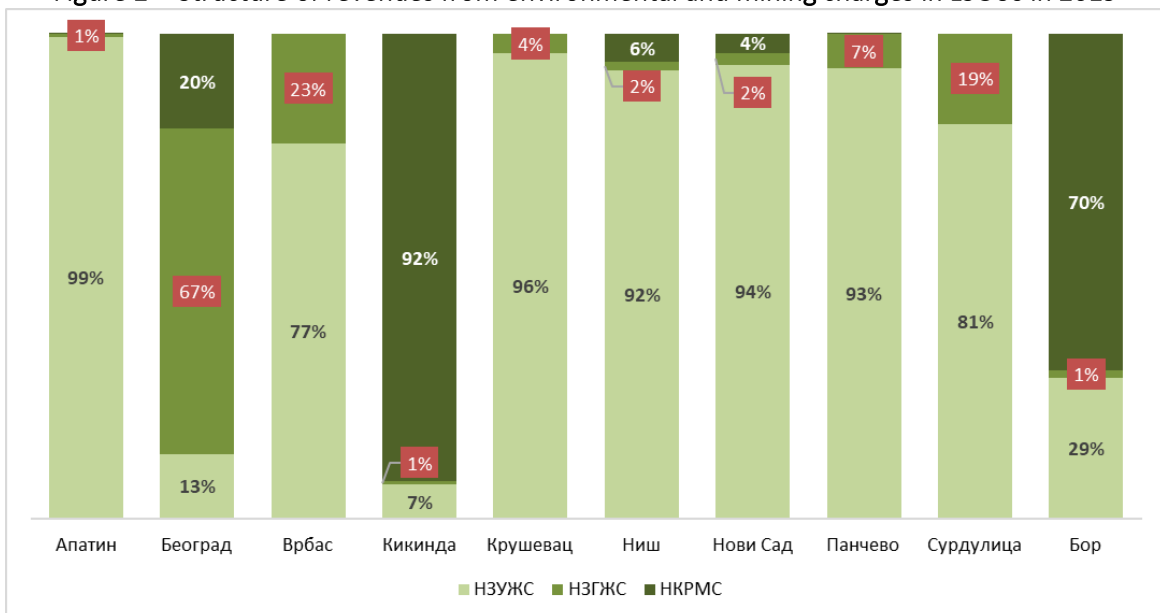
Revenues from mining charges are a dominant part of revenues from charges in Bor and Kikinda. It is only in Belgrade that revenues from the charge for environmental pollution is relatively most significant (67% of the total revenues from environmental and mining charges), while in all other selected LSGUs relatively highest revenues come from the charge for environmental protection and improvement.

**Figure 1 Relative significance of environmental and mining charges in the total revenues of LSGUs in 2019**



Source: Calculations made by the Author

**Figure 2 Structure of revenues from environmental and mining charges in LSGUs in 2019**



Source: Calculations made by the Author

Besides in Belgrade, the LSGUs in which revenues from pollution charges are relatively significant in the structure of revenues from environmental and mining charges include Vrbas (23%), Surdulica (19%), Pančevo (7%), and Kruševac (4%).



Charge for environmental protection and improvement is relatively most significant in the total revenues from environmental and mining charges in Apatin (as much as 99% of the total revenues from here observed charges). It makes up over 90% of the total revenues from environmental and mining charges in Kruševac, Niš, Novi Sad, and Pančevo.

The analysis of the data from annual accounts for 2019 budgets of selected LSGUs revealed numerous inconsistencies in the allocation of expenditures in accordance with functional classification. Namely, the purpose of functional classification is to allow that the expenditures of different organisational parts of the public administration, arisen within the implementation of different programmes, are shown in the framework of one and the same intended use. An overview of the selected LSGUs' annual accounts uncovers a number of essential facts.

Not all LSGUs show their totalled data about expenditures in accordance with functional classification. In the sample of the LSGUs which are here selected, this was done by Kikinda, Kruševac, Novi Sad, and Pančevo. Data about the total expenditures on EP in other observed LSGUs is the result of expenditure analysis across the programmes which have a functional classification code within their framework.

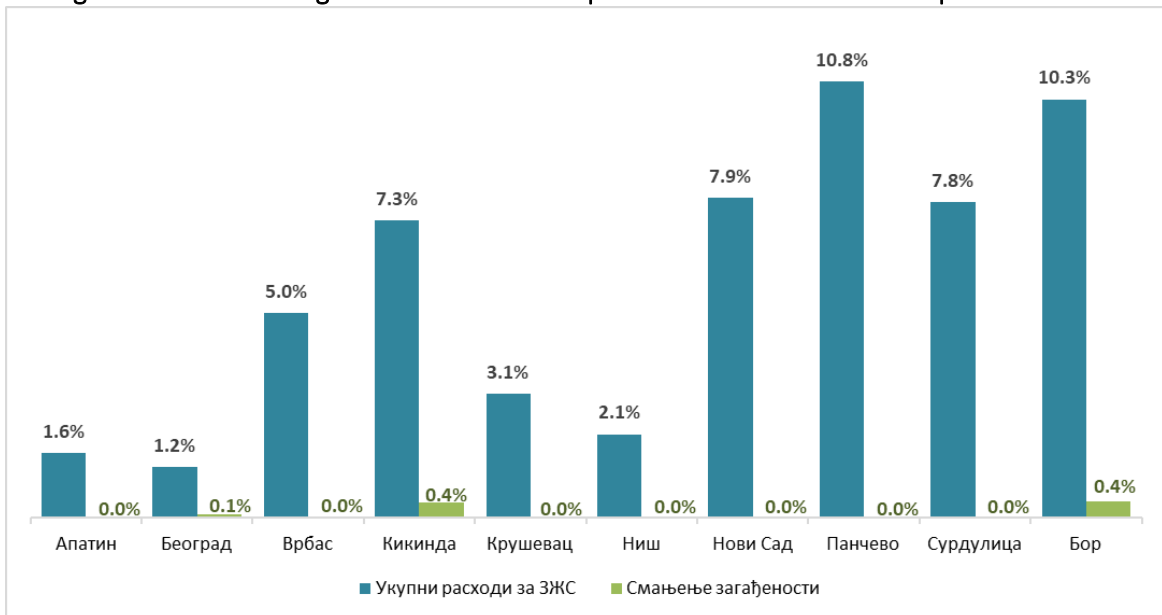
- (1) Cataloguing of expenditures in accordance with functional classification is not done in a uniform manner and thus it happens that one and the same type of expenditures is classified as expenditure on EP in some LSGUs and as expenditure in some different functional category in other LSGUs. A good illustration for this is expenditure on so-called zoo-hygiene which, among other things, include the taking care of stray cats and dogs. In a number of LSGUs those expenditures, which include even the expenditures on dog bite damages (Niš), are classified in category 5 EP, and in some other they are classified in category 6 – Housing and community affairs.
- (2) Expenditure analysis has been made considerably more difficult by the fact that it is impossible to directly process the data from budget annual account which are, as a rule, published to be processed in an unstructured, often unsearchable, PDF format. Public availability of data contained in the planned budget and its execution, in a format which allows direct data processing, became critically important when programme budgeting was introduced. Considering that programme budgeting involves the presentation of planned/executed expenditures for each individual programme, both budget law/decisions and annual accounts are documents of couple hundred pages. When data are not given in a format which allows direct processing, the introduction of budget programming leads to a decrease of transparency instead of increasing it. Namely, providing so many details without the possibility to apply data search and processing tools discourages, and to a large extent prevents, both the general population and the experts in the field, to make any analysis of the planned or executed budget.

This is also the reason why the data presented in the two Figures below need to be taken with reservations. Namely, it was impossible, within the deadline specified for the development of this Report to, with absolute certainty, establish whether all observed LSGUs have fully applied a suitable approach for the classification of all expenditures presented in all the programmes in their annual accounts. This Report therefore covers the classification of expenditures as the LSGUs showed them in their annual accounts, considering that any remedy of individually noted inconsistencies in the classification of expenditures on EP could result in greater inconsistencies if all other programmes are not reviewed and the latter would practically mean the development of new annual accounts of the selected LSGUs' budgets, which goes far beyond the scope of the ToR.

On the other hand, and bearing in mind overall goals of the analysis presented in this Report, the mere noting of above-mentioned inconsistencies is one of the results of the analysis.

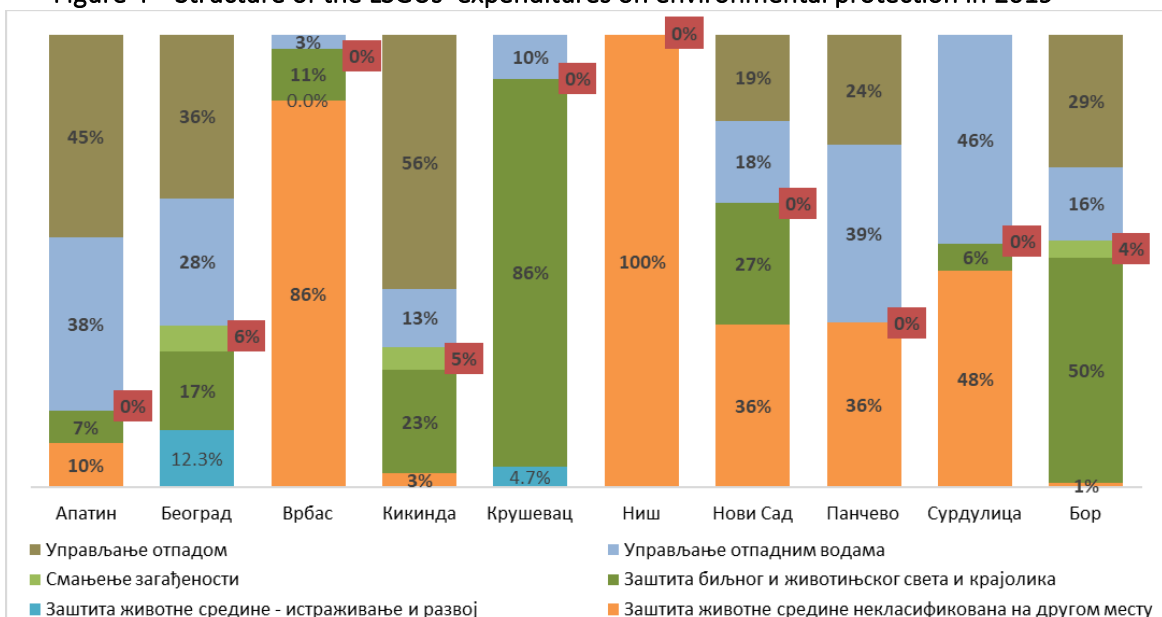
Taking into account the presence of inconsistencies in presenting the expenditures on environmental protection, the data from the selected LSGUs' annual accounts indicate that total expenditures on EP in the observed LSGUs varied in the range from significant 10.8% of total expenditures in Pančevo, to modest 1.2% of total expenditures in Belgrade. What all observed LSGUs share, however, is the fact that expenditures on pollution reduction in total expenditures in the observed LSGUs are insignificant. These expenditures are relatively most significant in Kikinda and Bor (0.4% of total expenditures), in Belgrade they account for 0.1% of total expenditures, and in the remaining observed LSGUs the expenditures classified as expenditures on pollution reduction are either at that same level or close to zero.

Figure 3 Relative significance of LSGUs' expenditures on environmental protection in 2019



Source: Calculation made by the Author

Figure 4 Structure of the LSGUs' expenditures on environmental protection in 2019



Source: Calculation made by the Author

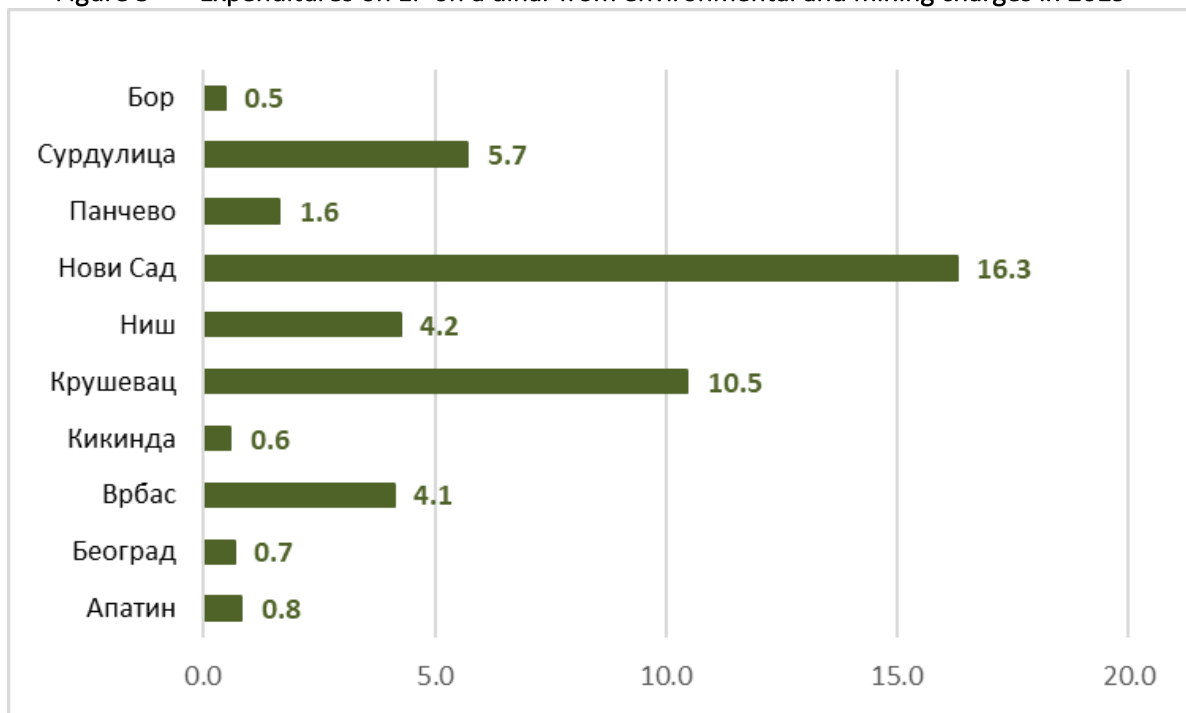
In most of the observed LSGUs (4), expenditures unclassified elsewhere predominate in the expenditures on EP (in Niš they account for as much as 100% of all expenditures on EP). Then follow expenditures on waste management (3 LSGUs), and then expenditures on the protection of flora and fauna and landscape (2 LSGUs in which expenditures on green space development predominate within these expenditures), while in one LSGU (Pančevo) expenditures on waste water management are the most significant.

Expenditures on pollution reduction are present in three of the observed LSGUs (Belgrade, Kikinda, and Bor), and expenditures on EP – research and development, are present in two of the observed LSGUs (Belgrade and Kruševac).

The Figure below shows expenditures on EP on a dinar of revenues obtained from environmental and mining charges.

Numbers in the Figures, therefore, show how many dinars of expenditures on EP were executed per a dinar of revenues from environmental and mining charges. For example, the number 0.5 in Figure 5 for Bor means that 0.5 dinars of expenditures on EP were made on 1 dinar of revenues from environmental and mining charges. Number 16.3 for Novi Sad in that same Figure means that 16.3 dinars were spent on EP for every dinar of revenues from environmental and mining charges.

Figure 5 Expenditures on EP on a dinar from environmental and mining charges in 2019



Source: Calculation made by the Author

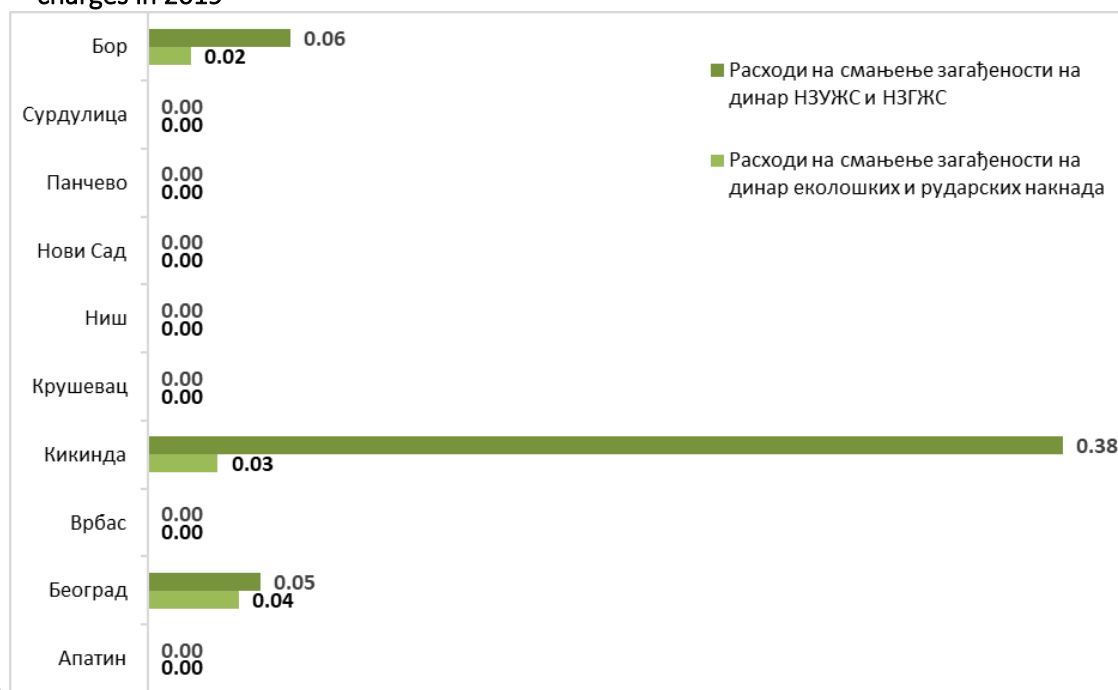
Numbers in Figure 6 show how many dinars of expenditures on pollution reduction were realised for a dinar of revenues from environmental and mining charges, i.e. on a dinar of the sum of revenues from charge for environmental protection and improvement and pollution charge. These numbers explain why it is widely believed that LSGUs do not use the funds obtained from environmental charges for EP, considering that general population do not make a distinction between expenditures on EP and expenditures on pollution reduction.

Not a single one of the observed LSGUs invests less than 0.4 dinars into expenditures on pollution reduction on a dinar of revenues from all environmental and mining charges, and neither on a dinar of revenues which are exclusively obtained from environmental charges. Even though this picture might be produced by erroneous classification of expenditures, that error in itself reveals the extent in which this type of investments into EP are neglected.

It is also necessary to point out that the sole purpose of the comparison shown in Figures 5 and 6 is to explain the dissatisfaction of environmental charge payers and their desire that the expenses they have on paying the environmental charges are the funding source for LSGUs' pollution reduction programmes (so-called specific-purpose spending).

The nature of a well-designed system of environmental charges, however, is corrective rather than fiscal. In other words, a system of environmental charges is supposed to make the polluters reduce the emission of the pollution which is a side-effect of their business activities. Even though it cannot be avoided that some specific business activities have a negative impact on the environment, this impact also, and for the most part, depends on the technology that is used and the organisation of work. This is to say that a well-designed system of environmental charges encourages the polluters to choose such technologies and organisation of work which reduce the negative impact on the environment. Such system is possible only if the level of charges depends on the level of pollution emitted through a specific activity.

**Figure 6 Expenditures on pollution reduction on a dinar of environmental and mining charges in 2019**



Source: Calculation made by the Author

Accordingly, a well-designed system of environmental charges should not be seen as a funding source for EP programmes or any other programmes. Namely, revenues should in general decrease if the system is effective and diminishes the payers' negative environmental impact. At the same time, this means that, considering that not all pollution sources can be covered by the system of charges,

expenditures on pollution reduction should go beyond the revenues from environmental pollution charge.

In the present system of environmental charges, the charge for environmental protection and improvement is not an effective instrument neither from the corrective perspective nor from the fiscal perspective. It is essentially a hidden tax (parafiscal) since the level of liability does not depend on the payer's level of emission. That is why it cannot have a corrective effect (payers pay a specified amount regardless of the environmental impact they actually have). On the other hand, because of the payers' constant (justifiable) dissatisfaction and the consequential frequent changes in the way it is administered, this charge cannot be a stable source of income in the long term.

### 3. Charges for protected area usage and expenditures on protected area protection

#### 3.1. Scope and sources of data

The analysis of revenues from charge for the usage of protected area and expenditures on the protection of protected area covered ten protected areas presented in Table 2.

**Table 2 Overview of analysed protected areas and their management bodies<sup>5</sup>**

| Name and type of the protected area     | Management body   |
|---|---|
| “Đerdap“ National Park                  | Đerdap National Park Public Enterprise, Donji Milanovac                               |
| “Fruška gora“ National Park             | Fruška gora National Park Public Enterprise, Sremska Kamenica                         |
| “Tara“ National Park                    | Tara National Park Public Enterprise, Bajina Bašta                                    |
| “Kopaonik“ National Park                | Kopaonik National Park Public Enterprise with Unlimited Liability, Kopaonik           |
| “Radan“ Nature Park                     | Srbijašume Public Enterprise for Forest Management                                    |
| “Stara planina“ Nature Park             | Srbijašume Public Enterprise for Forest Management                                    |
| “Šargan – Mokra Gora“ Nature Park       | Nature Park Limited Liability Company, Mokra Gora                                     |
| “Uvac“ Special Nature Reserve           | Rezervat Uvac Limited Liability Company, Nova Varoš                                   |
| “Vlasina“ Outstanding Natural Landscape | Tourist Organisation of Surdulica Municipality  |
| “Đavolja Varoš“ Nature Monument         | Planinka Stock-Company for Natural Spas, Tourism, Catering, and Production, Kuršumlja |

Considering that charge for protected area usage is paid directly to the management body, rather than to the payment account for public revenues, data on revenues from this charge are not available to the Ministry of Finance, Treasury Administration. Moreover, even though this is a public revenue defined by LoC, it is not specified in what manner management bodies are to report about the revenues obtained from this charge or how these funds are spent.

That is why the data required for the analysis were collected in two different ways.

The first way was the search of publicly available data on the financial health of the management body’s business. This includes financial reports of the management bodies which are public enterprises or companies, or - for tourist organisations founded by the municipality - annual accounts of the municipality budget.

The second way included the delivery of a summarised questionnaire to the management bodies of selected protected area<sup>6</sup> which, among other things, contain the questions relating to the level of

<sup>5</sup> Information about the PA management bodies are taken over from the Central Register of Protected Natural Resources kept with the Institute for Nature Conservation of Serbia.

<https://www.zzps.rs/wp/pdf/centralniregistar/2020%203%20Pregled%20zasticenih%20podrucia%20Srbije.pdf>

<sup>6</sup> See the content of the Questionnaire in Annex 2 to this Report.

collected charges for protected area usage, for different charging bases as specified in LoC<sup>7</sup>, and their significance in the financing of expenditures on PA protection.

The first way, i.e., the search of publicly available data on management body's business, did not produce the data which would be possible to analyse. The only result of this search is that the analysis of revenues from the charge for PA usage and expenditures on PA protection is not possible based on publicly available data, despite the fact that public revenues and management bodies are involved.

With the exception of the management body of "Kopaonik" National Park, at this time there are no publicly available data on the financial standing of management bodies of protected areas, for 2020.

That is why the analysis was made of the publicly available data and information contained in the set of financial reports of the management bodies of selected protected areas, for 2019 (based on the data from the income statement, notes accompanying the financial reports, and based on the JP Srbijašume's annual accounts), or the available data on the execution of the 2019 budget of Surdulica Municipality.

Management bodies of protected areas do not explicitly indicate the amount of revenues obtained from the charge for protected area usage in their financial reports. They either show the summation collected based on all charges for the usage of public goods (e.g., Fruška gora, Tara), or their financial reports which are made publicly available do not indicate the amount of revenues relating to the amounts charged for the usage of public goods (such as Đavolja Varoš).

Moreover, it is impossible to, based on the analysis of the data on management bodies' expenditures, determine what part of the expenditures directly relates to the expenditure on environmental protection or get the information about the resources from which those expenditures were financed. Data on the expenditures of the management bodies of analysed areas follow the structure of the charter of accounts specified by law; thus, as a rule, there are no detailed analysis or distribution of expenditures per different functions or corporate programmes. On the other hand, although it is possible to, based on the execution of Surdulica Municipality's budget, determine the expenditures of the Surdulica Municipality's Tourist Organisation, it is still impossible to unambiguously determine what part of those expenditures, if any at all, relates to the expenditures on the protection of "Vlasina" Outstanding Natural Landscape which it manages<sup>8</sup>.

Further, JP Srbijašume, as the management body of "Radan" Nature Park and "Stara planina" Nature Park, underlines in its annual business report, that, in addition to these two nature parks, it manages further 52 protected areas (the total of 54 protected areas) as well as 44 hunting areas. The Company does not report the amounts of revenues they made, namely the expenditures on each of these protected areas/hunting areas.

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<sup>7</sup> LoC defines 7 different bases for charging for AP usage and, considering that individual specific charging bases are grouped within these seven bases, there exist about sixty different individual charges for the usage of PA.

<sup>8</sup> It may be deduced from the data in the annual accounts of Surdulica Municipality for 2019 that total realised expenditures of their Tourist Organisation amounted to RSD 75.6 million, and that there were no expenditures on EP programmes within these expenditures. On the other hand, it follows, from this Management Body's answers to the Questionnaire, that more than 80% of the protected area expenditures were financed from the revenues from charges. This could either mean that protected area expenditures were not functionally classified as expenditures on EP by mistake, or that the funds were not used for EP.

In addition, Planinka ad from Kuršumljia, besides being the management body of Đavolja Varoš Natural Monument, is also involved in Prolom natural water bottling; also doing business within this Company is Prolom Banja Special Hospital for Recovery and Rehabilitation which has two profit-centres: Prolom Banja and Lukovska Banja. Just like in the case of JP Srbijašume, considering that the Company does not report separately about each of these business segments, it is not possible to determine which part of the expenditures relates to the environmental protection of Đavolja Varoš Natural Monument, i.e., what is the amount charged for the usage of this area.

Bearing in mind the above stated, it may be concluded that this PA management bodies' (un)established reporting system is untransparent and does not allow any analysis of the charge for usage of protected area, neither as a corrective or fiscal instrument.

That is why the analysis below is based entirely on the data collected through the Questionnaire which was answered by the management bodies of ten selected PAs.

### 3.2. Scope, structure, and relative significance of revenues from the charge for the usage of protected area

The Table below shows revenues from charge for protected area usage, obtained in 2019 and 2020, from the highest to lowest as obtained in 2020

**Table 3 Revenues from the charge for PA usage, in RSD Mil.**

| Protected area     | 2019  | 2020  |
|--------------------|-------|-------|
| Fruška Gora        | 101.6 | 107.1 |
| Đerdap             | 75.4  | 76.5  |
| Kopaonik           | 35.6  | 49.2  |
| Radan              | 38.5  | 38.5  |
| Tara               | 39.0  | 36.2  |
| Stara planina      | 35.8  | 35.8  |
| Vlasina            | 34.5  | 34.5  |
| Šargan -Mokra Gora | 34.6  | 29.4  |
| Uvac               | 13.2  | 13.1  |
| Đavolja Varoš      | 3.8   | 1.9   |

Considering that the charged amount depends on the size and type of the protected area concerned, the focus of this analysis was on the structure of these revenues and their relative significance in financing the expenditures on PA, considering that those are possible to compare. Figure 7 shows the average structure of revenues from the PA usage charge obtained in 2019 and 2020, and Figure 8 shows the structure of revenues from the charge for carrying out a business activity, which is the single charging-basis category that is contributing most revenue.

**Figure 7 Structure of revenues from charge for PA usage, average for 2019 and 2020**



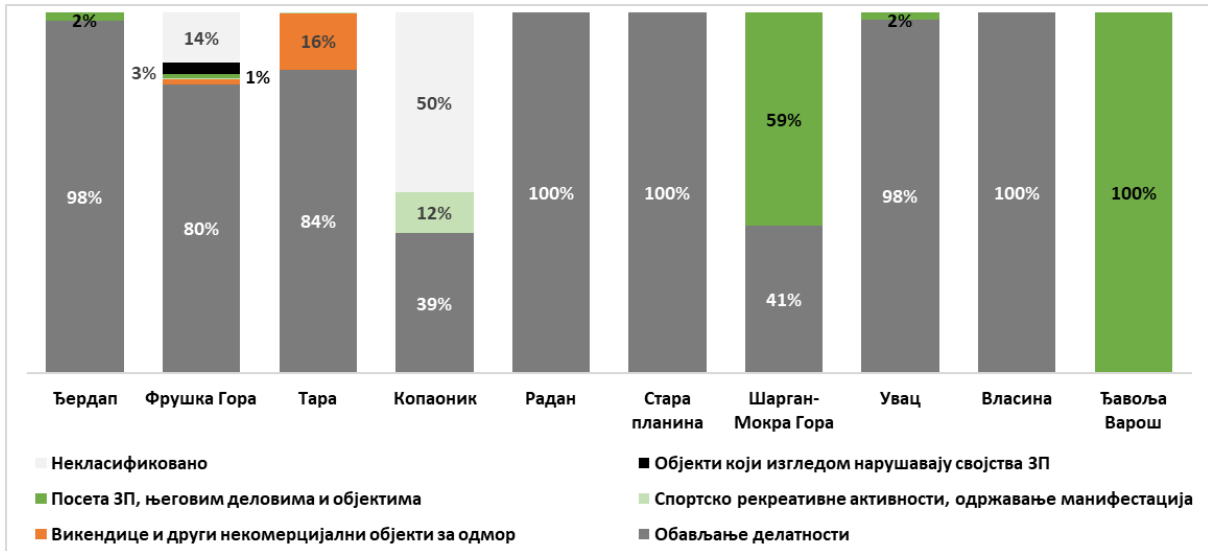


Figure 8 Structure of revenues from charge for carrying out a business activity, average for 2019 and 2020

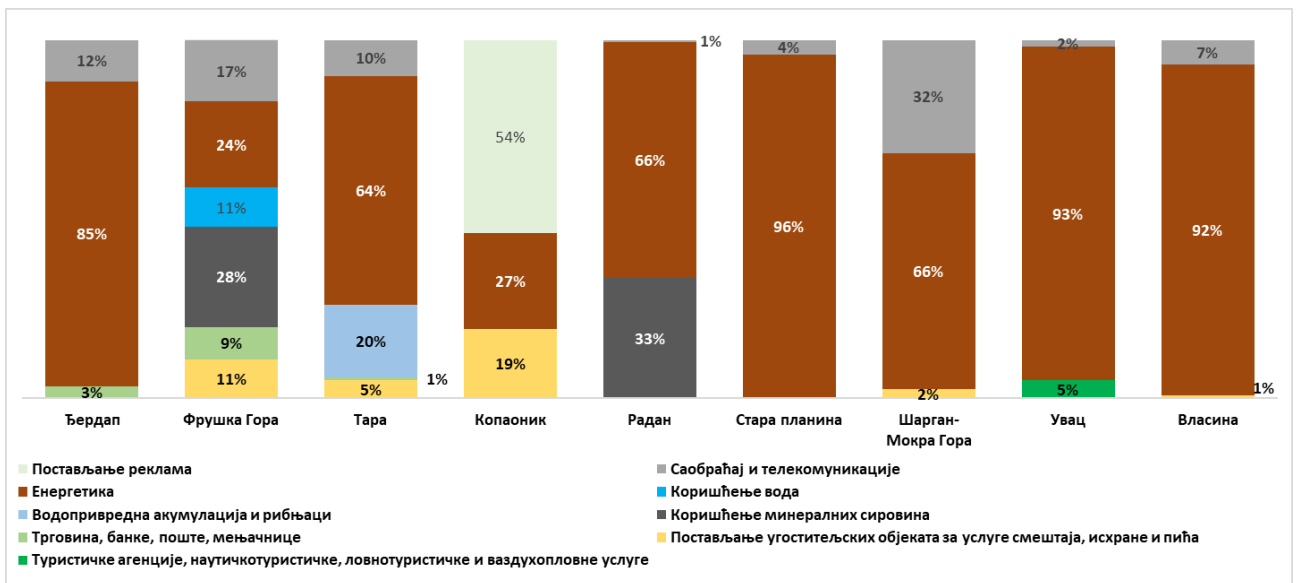


Table 4 provides an overview of the answers given by PA management bodies to the questions from the Questionnaire which, among other things, include the management bodies' assessment of the relative significance of revenues from charge for protected area usage for financing the expenditures on protected area.

Table 4 Overview of the PA management bodies' answers to questions from the Questionnaire

| Заштићено подручје  | Чинилац са најзначајнијим утицајем на приходе од накнаде   | Приходи од накнада у 2020. у односу на 2019, % промене | Утицај Ковида, да/не | Учешће прихода од накнада у финансирању расхода, распон у % |
|---------------------|--|--|----------------------|---|
| Ђердап              | Максимални износи накнада прописани ЗоН  | 0%   | Да                   | 30-40   |
| Фрушка Гора         | 1. Основи плаћања прописани ЗоН<br>2. Максимални износи накнада прописани ЗоН<br>3. Број корисника   | 0%   | Не                   | 20-30   |
| Тара                | 1. Основи плаћања прописани ЗоН<br>2. Број корисника   | 0%   | Не                   | 10-20   |
| Копаоник            | 1. Број корисника<br>2. Основи плаћања прописани ЗоН<br>3. Максимални износи накнада прописани ЗоН   | већи 33%   | Не                   | 40-50   |
| Радан               | 1. Основи плаћања прописани ЗоН<br>2. Друго - одлагање наплате услед жалби корисника ЗП на решења другостепеном органу (Министарство ЗЖС)<br>3. Број корисника<br>4. Максимални износи накнада прописани ЗоН | 0%   | Не                   | 70-80   |
| Стара планина       | 1. Основи плаћања прописани ЗоН<br>2. Друго - одлагање наплате услед жалби корисника ЗП на решења другостепеном органу (Министарство ЗЖС)<br>3. Број корисника<br>4. Максимални износи накнада прописани ЗоН | 0%   | Не                   | 70-80   |
| Шарган - Мокра Гора | Број корисника   | мањи 15%   | да                   | преко 80  |
| Увац                | 1. Основи плаћања прописани ЗоН<br>2. Број корисника   | 0%   | Да                   | 20-30   |
| Власина             | Основи плаћања прописани ЗоН   | 0%   | Не                   | преко 80  |
| Ђавоља Варош        | 1. Број корисника<br>2. Максимални износи накнада прописани ЗоН  | мањи 50%   | Да                   | 40-50   |

The following observations were derived based on the data presented above:

- (1) In all observed PAs, the sum of revenues from the charge for PA usage slightly increased (2.7%) in 2020 compared with 2019. However, taking into consideration the revenue fluctuation across individual PAs (revenues vary from an increase of 38.3% for Kopaonik PA to a fall of 50% for Đavolja Varoš PA), no general trend can be identified.
- (2) **Predominating** in the structure of revenues are **revenues from charge for carrying out a business activity** (83% in 2019 and 82% in 2020), and revenues from charge for PA visiting are the only other relatively significant revenues (6% in 2019 and 5% in 2020). All other charging bases may be deemed to be negligible in the observed PAs.
- (3) Within the revenues from charge for carrying out a business activity, **the most significant revenues** come from charge for the erection of facilities for **carrying out an energy-related business activity**, which, in both years, account for more than a half of total revenues from charges. **Then follow** revenues from charge for carrying out a **transport or telecommunication**–related business activity (8% of the total revenues, in both of the observed years). The revenues from these two charging categories are present in all the observed PAs, with the exception of Đavolja Varoš which obtains 100% of their revenues from the charge for PA visiting.
- (4) The revenues from charge for **exploitation of mineral resources** are present in only 2 of the 10 observed PAs (Fruška Gora and Radan) in which they have relatively significantly contributed to the total revenues (on average, about one fifth in Fruškaj Gori and about one third in Radan).
- (5) Revenues from **charge for water usage** are present only in Fruška Gora PA (on average, they account for about 8% of the total revenues), and revenues from charge for water accumulations are present in Tara PA (about 17% of the total revenues).
- (6) With some exceptions, revenues from charges are contributing less to the **financing expenditures on PA** in larger PAs (typically less than 50%), while, in smaller PAs, revenues from charge are contributing more to expenditure financing (typically more than 70%).
- (7) In the sample of 10 observed PAs, **changing the charging basis for the usage of water** would result in a decrease of revenues only in Fruška Gora PA, but not even in this PA would it have any significant impact on the expenditure levels considering that the share of revenues from all charges in this PA in financing the expenditures is 20% and 30%. It follows that less than 3% of total expenditures would require additional financing.
- (8) **Changing the charging basis for the exploitation of mineral resources**, however, could have a more significant impact on the revenues from charges in those PAs in which mineral resources are being exploited, thanks to their relatively significant share in the total revenues. It is impossible to say how great this impact would be without the data on the square footage of the exploitation field since it would constitute this charging basis.
- (9) According to the assessment by the PA management bodies, **the largest impact on the obtained revenues** comes from the number of users (as indicated by 8 out of 10 PAs), then follow the charging bases defined by LoC (7 out of 10 PAs), and maximum amounts specified in LoC (6 out of 10 PAs). Bearing in mind the intention behind PA declaring and the regimes specified by law, an increase in the number of users who carry out a business activity in the PA cannot be deemed a suitable way to increase revenues from charges. The fact that PA management bodies believe that charging

bases have a significant impact on the level of obtained revenues suggests that there is a need for them to be redefined.

(10)The share of revenues from charges in financing the expenditure on PA (in more than a half of the observed PAs they finance less than a half of expenditures) suggests, however, that **charge for the usage of PA cannot be deemed to be the primary source of funds for PA preservation and promotion** and that the funds for this purpose need to be provided from other sources.

Generally speaking, the present regulation of charges for protected area usage features multiple shortcomings, the following two being the most significant among them.

First, it does not provide for any transparency at all when it comes to the collection levels and how the funds are spent based on this public revenue.

Second, the diverse set of charging bases for protected area usage includes the bases which are supposed to have a corrective effect (detering from usage), the bases which are supposed to be of purely revenue-related character and connected with costs of PA maintenance (charges for visits and organisation of events, for instance), but also those in which these two objectives are mixed (charge for carrying out a business activity in the PA). This division is implicit and does not create consistent incentives for PA protection, nor does it create such incentives for the users or the PA management bodies.

## 4. Recommendations

Recommendations for legislative amendments, both of LoC and the bylaws adopted based on LoC, relating to charge for environmental protection and improvement and charge for protected area usage, which were given in the first report within this Project<sup>9</sup>, are fully supported by the findings of the analysis presented in this Report.

The essential goal of these proposals is to ensure consistent implementation of the widely-accepted ‘polluter pays’ principle. The implementation of this principle requires that the system of environmental charges primarily constitutes a corrective mechanism with income effect<sup>10</sup>. If it is correctly set up, it will have a significant effect on behaviour (minimising the pollution emissions) which, on the other hand, also minimises the payment base. That is why the income effect, in a correctly set up mechanism, may be looked at only as a supplementary source for the financing of environmental protection.

In the domain of charge for environmental protection and improvement, this goal is to be achieved through the following crucial elements of the proposal for improvement:

- (1) Merging the charge for environmental protection and improvement and the pollution charge so that the pollution charge becomes the sum of the two components:
  - a fixed part determined according to the number of substances whose measuring is required by law, and
  - a variable part determined according to the level of SO<sub>2</sub>, NO<sub>2</sub>, PM, NH<sub>2</sub> and NMVOC emissions and waste production/disposal levels.
- (2) Expansion:
  - of the list of matters covered by the charge for ammonia and NMVOC
  - of the coverage of payers to include all who have a reporting duty (not only persons holding the mandatory IPPC permit)
- (3) Gradually raising the level of charge per emission (by 10% in each of the next three years)
- (4) Maintaining the charge for transport of dangerous matter (a part of present CEPI)
- (5) Increasing the share of revenues which belong to the LSGU: 50% instead of present 40%
- (6) Integrated register of polluters (national and local) which would record all who are imposed the obligation to measure the emissions of specified matter, with the location of the emitting plant.

Accepting the proposal for improvement in the domain of the charge for protected area usage, in addition to the proposed change of the base for the charge for usage of waters and mineral resources (PA surface area occupied by the activities, instead of the quantity of product made), and detailed specification of the administrative procedure for charge payment exemption for the payers who, through their activities, contribute to the PA protection and improvement, would all contribute to the achievement of the same goal and are implementable in a short term.

The findings of the analysis presented in this Report, however, suggest that full achievement of the PA protection goals would require a thorough revision of all – now more than 80 – charging bases for the charge for PA usage. The outcome of this revision should include, among other things, a clear

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<sup>9</sup> “Proposal for the improvement of charges for pollution, environmental protection and promotion, and usage of protected areas”, April 2021

<sup>10</sup> As opposed to the corrective mechanism with price effect, such as subsidies, for example.

classification of charging bases in accordance with the desired effect of the charge (corrective/income-related), as well as the distinction between the bases representing the provision of management body's/protected area services.

The implementation of the proposed changes would improve the efficiency and effectiveness of the environmental charge policy which should be based on the formally accepted and legislatively specified 'polluter pays' principle.

Recommendations with regard to improvement – or, in the case of the charge for protected area usage – for the establishment of transparency, based on the findings of the analysis presented in this Report, concern both to the revenues and the expenditures side of environmental policy.

First, it is necessary that the Ministry of Finance, Treasury Administration, removes technical problems and establish a system in accordance of which charge for PA usage would be paid to the payment account for public revenues and from which it would be directed to the management bodies of the PAs for whose usage they were paid.<sup>11</sup> Namely, the analysis showed that, at this moment, neither the Ministry of Finance nor the Ministry of Environmental Protection have available the complete data about the total amount collected or the amount collected on individual bases.

Second, it is necessary to impose the obligation on management bodies to submit to the Ministry of Environmental Protection and publish on their websites, the annually obtained revenues from the charge for PA usage, in total and per individual bases, as well as their expenditures on PA protection in that same period, in total and per individual programmes.

In addition to being a completely untransparent system, the lack of data on revenues from charges and expenditures on PA protection prevent the implementation of environmental policy in this domain.

Third, it is necessary to considerably improve the reporting on budget execution per functional classification, so as to enable clear identification of the level and structure of expenditures on environmental protection and ensure data comparability between different government levels and within the same level of government.

An important presumption for effective implementation of proposed changes is, among other things, the strengthening of local capacity to formulate and implement the environmental policy in accordance with local and national goals. This requires supporting local self-government units in, among other things, the following domains:

- Identification of local polluters,
- Strategic planning of EP,
- Improvement of the way in which EP projects are selected, planned, and reported about,
- Providing clear guidelines for allocation of EP programmes according to the standards of functional classification of expenditures.

The Ministry for Environmental Protection should have the leading role in providing support to LSGUs in these domains. However, the role of donor community could have a decisive effect on launching and implementing the programme of training the persons employed in local administrations, in all above-mentioned domains.

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<sup>11</sup> Annex 3 of this Report provides a detailed explanation of legal presumptions for the implementation of this proposal.

## Annex 1: Functional classification of expenditures on EP

Environmental classification was made based on the classification of environmental activities as processed in the Statistical Office of the European Union's system for collection of economic environmental data.

Category 5 – Environmental protection is divided into groups, as follows:

- 51 – Waste management;
- 52 – Waste water management;
- 53 – Pollution reduction;
- 54 – Protection of flora, fauna, and landscape;
- 55 - Environmental protection – R&D;
- 56 - Environmental protection unclassified elsewhere.

Group 51 - Waste management covers class 510 - Waste management (KU) comprising:

- Waste collection, treatment, and disposal. Waste collection includes cleaning of streets, squares, paths, markets, public gardens, parks, etc.; collection of all types of waste, either selectively according to the type of waste, or non-selective collection of all types of waste, and transportation of waste to the place of treatment or disposal. Waste treatment implies any method or process which is used to change physical, chemical, or biological form or composition of waste, so as to neutralise it, make it harmless, suitable for safe transportation, suitable for recycling, storing, or compressing. Waste disposal implies final disposal of the waste which is not intended for further use, on landfills, underground depositories, into the sea, or in other suitable manner;
- administration, supervision, inspection, operation or support to the systems for waste collection, treatment, and disposal;
- grants, transfers or subsidies to support the operation, construction, maintenance, or improvement of such systems.

It includes : collection, treatment, and disposal of nuclear waste.

Group 52 – Waste water management includes class 520 – Waste water management (KU) comprising:

- systems for waste water removal and treatment. Systems for waste water removal includes the management and construction of the systems of collectors, pipelines, and pumps for removal of all types of waste waters (rain water, residential wastewaters, and other available wastewaters) from the place of their production to the place where wastewater is emptied into the surface water. Wastewater treatment includes any form of mechanical, biological, or advanced treatment of wastewater to satisfy suitable environmental protection standards or other qualitative norms;
- administration , supervision, inspection, operation, and support to the wastewater removal and treatment systems;
- grants, transfers, or subsidies to support the operation, construction, maintenance, or improvement of such systems.

Group 53 - Pollution reduction includes class 530 - Pollution reduction (KU) comprising:

- activities relating to the protection of air and climate, soil and underground waters, noise, the reduction of noise and vibrations, and protection against radiation. These activities include construction, maintenance, operation of monitoring systems and stations (with the exception of meteorological stations); creation of different types of protection against noise, including the covering of motorway or railway sections which pass through cities with noise-reducing coatings; measures to reduce the pollution of waterways; measures for control or prevention of the emissions of green-house gases and other pollutants which negatively affect the air quality;

- construction, maintenance, and operation of the installations for polluted soil decontamination and pollutant storage; pollutant transportation;
- administration, supervision, inspection, operation, or support to the activities relating to pollution reduction and control;
- grants, loans, transfers, or subsidies to support the pollution reduction and control activities.

Group 54 – Protection of flora and fauna and landscape covers class 540 – Protection of flora and fauna and landscape (KU) comprising:

- activities relating to the protection of flora and fauna (including the renewal of extinct species and the protection of threatened species); protection of habitats (including the management of national parks and reserves) and protection landscape to conserve esthetical value (including the reshaping of damaged landscapes to increase their aesthetic value and the rehabilitation of abandoned mines and pits);
- administration, supervision, inspection, operation, or support to the activities relating to the protection of flora and fauna and landscape;
- grants, loans, transfers, or subsidies to support the activities relating to the protection of flora and fauna and landscape.

Group 55 - Environmental protection – research and development, covers class 550 - Environmental protection – research and development (KU) comprising:

- administration and operation of public authorities and organisations engaged in applied research and experimental development related to environmental protection;
- grants, loans, transfers or subsidies to support applied research and experimental development related to environmental protection undertaken by non-government bodies, such as research institutes and universities.

It excludes: basic research (140).

Group 56 - Environmental protection unclassified elsewhere covers class 560 - Environmental protection unclassified elsewhere (KU) comprising:

- administration, management, regulation, supervision, operation and support to the activities such as development, administration, coordination and monitoring of rules, plans, programmes, and budgets for the promotion of environmental protection; development and implementation of regulations and standards for the provision of environmental protection services;
- development and provision of general information, technical documentation and statistical data relating to environmental protection.

It includes : environmental protection operations and services which cannot be classified under (51), (52), (53), (54) or (55).



## Annex 2: Questionnaire for protected areas

1. Please circle a letter to indicate which of the following factors has the highest impact on the revenues from the charge for the usage of protected area. If you circle more than one factor, please indicate their ranking by entering No 1 for the most significant one, and so on.

- a ) number of users
- b ) charging bases as defined by the Law on Charges for the Usage of Public Goods (the Law)
- c ) maximum level of charge defined by the Law
- d ) other: \_\_\_\_\_

2. Revenues from the charge for the usage of protected area in 2020, compared with 2019, were:

- a ) approximately the same    b) smaller \_\_\_\_%    c) larger \_\_\_\_%

In case you answer under b) or c), please also insert the relevant number.

3. Did the crises caused by Covid-19 pandemic have a material impact on the revenues in 2020, compared with 2019?

YES                      NO

4. In what percent are the protected area's expenditures financed from the revenues from the charge:

- a ) up to 10% b) 10% - 20% c) 20% - 30%
- d ) 30% - 40%    e) 40% - 50% f) 50% - 60%
- g ) 60% - 70%    h) 70% - 80%    i) more than 80%

5. Please insert in the table below all charges for the usage of protected area that were laid down in 2019 and 2020.

| No  | Name of the charge from Annex 5 to the Law on Charges for the Usage of Public Goods | Laid down level* | Obtained revenues, RSD |      |
|-----|---|------------------|------------------------|------|
|     |   |                  | 2019                   | 2020 |
| 1.  |   |                  |                        |      |
| 2.  |   |                  |                        |      |
| 3.  |   |                  |                        |      |
| 4.  |   |                  |                        |      |
| ... |   |                  |                        |      |
|     | Total   | -                |                        |      |

\*If different than the maximum level provided by law

## Annex 3: The base for payment of charge for PA usage to the account for public revenues

According to the Law on Budget System (OG RS, No 54/2009, ..., 149/2020, hereinafter: LBS):

1. **Charge for the usage of protected areas (CUPA) is public revenue** considering that:
  - It is obtained through mandatory payments made by legal and natural persons who use the protected area (Art. 2(14) of LBS),
  - Protected areas (PAs), in accordance with Art. 4(26) of the Law on Nature Protection (OG RS, Nos 36/2009, ..., 95/2018 other law), are areas of general interest, and in accordance with Art. 3 of the Law on Public Property (OG RS, No 72/2011, ..., 153/2020) they are public property
  - It was introduced by the Law on Charge for the Usage of Public Goods (OG RS, Nos 95/2018 and 49/2019, hereinafter: LoC) which, in Art. 2(1) defines it as public revenue.
2. Users of public resources are determined either based on the manner in which they were founded or based on the share of public funds in the total income – in accordance with the definition from Art. 2(5) of LBS.
3. **The Treasury Administration (TA) carries out, among other things, the following tasks:**
  - **Open and maintain payment accounts for public revenues** – Art. 93(9)(2) of LBS
  - **Open and maintain subaccounts**, not only of the users of public revenues (included or not included in the consolidated treasury account system), but also of **other legal persons outside the public sector** - Art. 93(9)(4) of LBS
  - **Maintain other accounts in accordance with the law and other regulations** – Art. 93(9)(6) of LBS

Taking into consideration the above-mentioned provisions of LBS, there are no legal obstacles for the TA to, from a specific account for payment of CUPA, transfer the funds to a suitable PA management body (PAMB), provided the LoC laid down that:

- (1) CUPA is to be paid to a specific account for public revenues that is open with the TA;
- (2) the TA transfers the funds from that account to the PAMB indicated in the payment order;
- (3) the PAMB is obliged to open a subaccount with the TA;
- (4) the PAMB who fails to open a subaccount with the TA cannot charge CUPA.

Since relevant operations of the TA would be in accordance with the above-mentioned provisions of Art. 93 of LBS.

It is important to point out that these operations do not constitute allocation of paid-in public revenues which, in accordance with Art. 93(9)(3) of LBS, since such allocations are made only to the subaccounts of different levels of government; rather, these operations constitute the maintenance of subaccounts/accounts in accordance with the law and regulations.

Further, it is necessary to point out the fact that more than 95% of all PAMBs are user of public revenues because they are either public enterprises or companies founded by the Republic, the AP or the LSGU, or an organisation founded by the Republic, the AP, or the LSGU. In other words, the number of new accounts that the TA would have to open for the PAMBs would be very small.

Here below follows a proposal for relevant amendments to the LoC, with the amendments inserted in red letters.

Article 110

The revenues obtained from the charge for the usage of protected area belong to the management body and are to be paid to a specific payment account for public revenues from which they are to be transferred to the subaccount/account of the management body of the relevant protected area, opened with the Treasury Administration,

The management body of protected area which does not have a subaccount/account with the Treasury Administration shall be obliged to submit to the Treasury Administration a request for opening of a subaccount/account.

The management body of protected area which does not have a subaccount/account with the Treasury Administration shall not be allowed to charge for the usage of protected area.